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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001693

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SUBJECT: AZERBAIJAN: CONOCO-PHILLIPS CONCERNED ABOUT LOSING
UMID BABEK PROSPECT

Classified By: Ambassador Anne. E. Derse, reasons 1.4 (b,d)

¶1. (C) SUMMARY: On November 15 Conoco-Phillips executive Steve Park told the DCM that another, higher-level Conoco-Phillips executive was coming to Azerbaijan for a November 30 meeting with SOCAR President Rovnaq Abdullayev. The subject of that meeting will be Conoco-Phillips problems with its current protocol for the Umid Babek offshore gas field, in which Conoco-Phillips is unable to proceed due to FCPA concerns with one of its protocol partners. Although Conoco wishes for SOCAR to give it preferential bidding rights when the current protocol expires in February 2007, Park thinks it quite possible that SOCAR will instead wait for the current protocol to expire, then proceed with exploring the field itself. In her meetings with SOCAR President Abdullayev and other GOAJ energy-related interlocutors the Ambassador has raised the issue of Conoco's involvement with Umid-Babek in the context of the desirability of providing a level playing field so that US companies, with their needed technology, expertise and capital, will invest in Azerbaijan, and she will continue to do so. END SUMMARY.

¶2. (C) On November 15 DCM met with Conoco-Phillips (C-P) Manager, Negotiations and Exploration Contracts, Exploration and Business Development Steve Park, and C-P Baku Office Representative Ms. Fidan Aqayeva (at their request), concerning C-P's involvement in the Umid Babek field. Econoff was notetaker.

¶3. (C) BACKGROUND: C-P is a partner in a protocol for the development of the Umid Babek offshore field with Target Petroleum Azerbaijan Corporation and with SOCAR. C-P signed this two-year protocol in February 2005, and it is due to expire in February 2007. After signing the protocol, C-P did due diligence on Target and found that for FCPA reasons it could not continue with Target as a partner, and as such no exploratory work has been done on the Umid-Babek prospect. C-P has been seeking dissolution of the existing protocol while still keeping a preferential position for any subsequent protocols for the same field. (NOTE: C-P claims it was pressured into a 'forced marriage' with Target in order to get the protocol). Umid Babek is potentially a major source of Azerbaijani gas: according to SOCAR estimates, it could produce up to 14-15 billion cubic meters of gas annually. END BACKGROUND.

¶4. (C) Park said that he had just met that day with his POC at SOCAR, Senior Geologist Arif Narimanov, and that he was told that C-P Executive Vice President for Exploration and Production (Europe, Asia, Africa and the Middle East) Bill Berry has an appointment to meet with SOCAR President Rovnaq Abdullayev on November 30. (The meeting subsequently was

delayed due to Abdullayev's travels). Park said that after that meeting, if Berry does not get the green light on continued C-P involvement in the Umid Babek project after the expiration of the existing protocol in February 2007, he will seek an appointment with President Ilham Aliyev, per guidance earlier received from Presidential Energy Advisor Ali Asadov.

15. (C) Recounting recent events, Park told the DCM that in early October SOCAR had seemingly 'leaned on' Target to withdraw from the protocol in which it was a partner with C-P, and at that time Park was told that C-P was to receive a Letter of Withdrawal from Target by the middle of October. However, that letter never came and C-P subsequently learned, in late October, that Target did not intend to withdraw from the Protocol. Park said he believed that Target was seeking to 'monetize' its share in the protocol, i.e. have a third company pay Target for its interest in the Umid Babek project. According to Park, the key condition for C-P avoidance of FCPA issues was for Target to cede its interest back to SOCAR, which could then issue it to a new company (i.e. Target could not directly cede its interest to another company). C-P's legal department believed that from a FCPA viewpoint, if Target let its interest revert back to SOCAR, and SOCAR then assigned it to another company, then C-P would not be obligated to ask its new partner whether it had paid Target any money for its interest. When there had been talk in October of Target relinquishing its interest back to SOCAR, C-P had heard that German company RWE or Indian company ONGC were potential new partners, and it had started doing due diligence on these companies just in case. C-P had also heard that Russian automobile tire company Amtel was another possible assignee. Park conjectured that the reason Target decided not to withdraw from the project and to monetize its interest was its concern that C-P might indeed 'ask the question' of any new company as to whether it had

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paid Target for its interest in Umid Babek.

16. (C) Econoff told Park that in the November 9 meeting the Ambassador and visiting DOS Special Representative for Commercial and Business Affairs Frank Mermoud had with SOCAR President Abdullayev, she had raised the issue of C-P's involvement with Umid Babek, noting the role US companies can play in supporting SOCAR's mission to optimally develop and exploit Azerbaijan's oil and gas resources. During that meeting, Abdullayev said, as he has before, that this protocol was signed before he became SOCAR head, and that since it was an agreement among three parties (i.e. SOCAR, Target, C-P), it was up to all three parties to work out a mutually satisfactory solution. Since both Target and SOCAR were willing to proceed according to the protocol, Abdullayev implied that it was up to C-P work out a mutually satisfactory arrangement with Target.

17. (U) In an October 26 news article, SOCAR First Vice-President Khoshbakht Yusifzade was quoted as saying that SOCAR may start drilling of prospective natural gas structures at Umid Babek in the spring 2007. However, he noted that if SOCAR wanted to proceed before February 2007 it would have to first resolve legal issues with C-P. Yusifzade told Reuters that SOCAR would have to wait until the protocol expired before independently starting operations on the block.

18. (C) COMMENT: Park was relatively downbeat about C-P's prospects, feeling that SOCAR was going to let the existing protocol expire on February 23, 2007. His contacts at SOCAR have led him to believe that at that point SOCAR would not re-bid the Umid Babek field but would instead seek to drill some exploratory wells itself or through subcontractors. C-P believes such a move would allow SOCAR to decide on subsequent full-field development and to ask for a much higher price when it eventually re-bids the fields. Park said that the Umid Babek field is actually two adjoining fields, one shallow and the other deep, and that in his opinion SOCAR does not have the technical capability to drill

the deep, high-pressure portion of Umid Babek. Park said that C-P is drawing up its regional budget for the coming years, and might well be forced to walk away from its involvement in Umid Babek, should the existing agreement expire and SOCAR indeed decide not to re-tender the project.

19. (C) COMMENT (CONTINUED): In each of her meetings with SOCAR President Abdullayev the Ambassador has raised the issue of C-P's involvement with Umid-Babek in the context of the desirability of providing a level playing field so that US companies, with their needed technology, expertise and capital, will invest in Azerbaijan, and she will continue to do so. END COMMENT

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